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**FEDERAL COMMUNICATIONS COMMISSION**  
Washington, D.C. 20554

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In the Matters of )

1998 Biennial Regulatory Review-- )  
Review of Accounting and Cost )  
Allocation Requirements )

CC Docket No. 98-81

United States Telephone Association )  
Petition for Rulemaking )

ASD File No. 98-64

**COMMENTS OF GTE SERVICE CORPORATION**

Dated: July 17, 1998

GTE Service Corporation and its affiliated  
domestic telephone operating companies

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## SUMMARY

GTE supports the Commission's decision to allow certain ILECs to use Class B accounts. The Commission, however, has failed to adequately justify excluding GTE from the class of carriers allowed to use Class B accounts.

The Commission's decision to modify the threshold levels for Class B accounts was arbitrarily designed to exclude GTE and the BOCs. The primary reasons given for excluding GTE from the benefits of Class B accounting do not justify GTE's exclusion.

The Commission's rationale that the greater the volume of transactions involving competitive products and services, the more accounting regulation is needed makes no sense and is contrary to the deregulatory mandate of the 1996 Act. In any event, GTE's ratio of non-regulated to regulated activity is comparable to that of the mid-sized ILECs.

Class A accounting is also not necessary to uphold the FCC's obligation to enforce various statutory sections aimed at preventing cross-subsidization. Of the eight statutory sections listed by the FCC, six apply only to the BOCs while the other two apply to all LECs equally. Moreover, the advent of price cap regulation and other regulatory safeguards provides adequate insurance against cross-subsidies.

The FCC's rationale for denying GTE CAM simplification also falls short. As with Class B accounts, GTE is indistinguishable from the mid-sized ILECs in application of the FCC's criteria.

Finally, while GTE supports the specific cost accounting reforms proposed by the Commission in the *NPRM*, the FCC did not undertake to make the kind of revisions that

are warranted under Section 11 of the Act and that will make a difference to regulated companies. In particular, GTE urges the FCC (1) to move toward strict GAAP accounting; (2) to adopt Vintage Amortization Level ("VAL") accounting for all support accounts; (3) to eliminate the expense limit rules and defer to GAAP materiality considerations; and (4) to closely consider in this proceeding the USTA's suggestions for simplifying the Part 32 USOA Rules and Regulations.

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**COMMENTS OF GTE SERVICE CORPORATION**

GTE Service Corporation and its affiliated domestic telephone operating companies (collectively "GTE")<sup>1</sup> respectfully submit their comments on the Notice of Proposed Rulemaking in the above-captioned proceeding.<sup>2</sup> In the *NPRM*, the Commission proposes to modify its Part 32 accounting and cost allocation rules to allow mid-sized carriers currently using Class A accounts to use instead the more streamlined Class B accounts. The Commission also proposes to establish less burdensome cost allocation manual ("CAM") procedures for the mid-sized carriers and to reduce the frequency with which independent audits of cost allocation procedures are required.

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<sup>1</sup> GTE's domestic telephone operating companies are: GTE Alaska Incorporated, GTE Arkansas Incorporated, GTE California Incorporated, GTE Florida Incorporated, GTE Hawaiian Telephone Company Incorporated, The Micronesian Telecommunications Corporation, GTE Midwest Incorporated, GTE North Incorporated, GTE Northwest Incorporated, GTE South Incorporated, GTE Southwest Incorporated, Contel of Minnesota, Inc., and Contel of the South, Inc.

<sup>2</sup> 1998 Biennial Regulatory Review – Review of Accounting and Cost Allocation Requirements, *Notice of Proposed Rulemaking*, CC Docket No. 98-81, FCC 98-108 (released June 17, 1998) (hereinafter "*NPRM*").

Lastly, the Commission proposes several changes to the Uniform System of Accounts ("USOA") to reduce accounting requirements and to eliminate or consolidate certain accounts.

The Commission's proposals come as part of the 1998 Biennial Regulatory Review, required by Section 11 of the Communications Act of 1934 ("the Act"), as amended by the Telecommunications Act of 1996 ("the 1996 Act"). Section 11 requires the Commission to review its regulations applicable to providers of telecommunications services to determine whether the regulations are no longer in the public interest due to meaningful economic competition between providers of such service and whether such regulations should be repealed or modified.<sup>3</sup> Section 11 further instructs the Commission to "repeal or modify any regulation it determines to be no longer necessary in the public interest."<sup>4</sup>

## **I. INTRODUCTION**

GTE believes the instant NPRM fails to go far enough toward eliminating unnecessary accounting regulations. Section 11, by its terms, was intended to apply broadly to "all regulations ... in effect at the time of the review that apply to the operations or activities of *any* provider of telecommunications service" (emphasis added). While the *NPRM* appears to recognize that many of the existing accounting rules and regulations are costly, burdensome, and no longer in the public interest, it nevertheless offers meaningful regulatory relief to only a small portion of the local

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<sup>3</sup> 47 U.S.C. § 161.

<sup>4</sup> *Id.*

exchange industry. Moreover, the FCC fails to adequately justify its decision to limit the beneficiaries of its regulatory relief to primarily mid-sized incumbent local exchange carriers ("ILECs"), while excluding other ILECs, including GTE. Certainly, there is nothing in the Act itself that would require such an arbitrary distinction be drawn. While GTE supports simplification of accounting and audit requirements for mid-sized companies, it also maintains that these simplification proposals should apply equally to all companies, regardless of size. GTE urges the Commission to use this opportunity to simplify the accounting and audit requirements for all companies within the telecommunications industry in the true spirit of Section 11.

## **II. DISCUSSION**

### **A. ACCOUNTING SIMPLIFICATION SHOULD APPLY TO ALL CARRIERS EQUALLY, REGARDLESS OF SIZE, BUT ESPECIALLY FOR CARRIERS UNDER PRICE CAP REGULATION.**

The distinction between Class A and Class B accounting today falls on either side of a designated indexed revenue threshold, currently \$112 million. Carriers with annual operating revenues above this threshold are classified as Class A, while those with revenues below the threshold are considered Class B. As the FCC notes, "Class A carriers must record their transactions to 261 accounts while Class B carriers maintain only 109 accounts."<sup>5</sup> Thus, the Commission recognizes that carriers required to follow Class A accounting face significantly greater administrative burden (and therefore significantly higher costs) than carriers not subject to these requirements.

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<sup>5</sup> *NPRM*, at 2 (¶ 3).

The *NPRM* proposes a revision to the \$112 million threshold such that it would be "based on the aggregate revenues of the incumbent LEC and any LEC that it controls, is controlled by, or with which it is under common control."<sup>6</sup> The *NPRM* further establishes a revenue threshold of \$7 billion, above which Class A accounting would still be required.

GTE believes the Commission's proposal to relieve mid-sized carriers of the regulatory burden imposed by maintaining Class A accounts is commendable and should be adopted. GTE believes, however, that the same relief should be extended to all other ILECs.

There is little question that the new threshold was selected solely to separate GTE from the other independent ILECs and to deny GTE and the Bell Operating Companies ("BOCs") the relief that Class B accounting offers carriers. Indeed, in the *NPRM*, the Commission freely admits that "...this revision would limit Class A accounting to the Bell Operating Companies and the GTE Operating Companies."<sup>7</sup> The FCC also states that "[t]he \$7 billion threshold will provide the Commission with Class A accounting data for nearly 90% of the industry for local exchange telecommunications, as measured by annual operating revenues."<sup>8</sup>

GTE does not believe there is record evidence to support the Commission's line drawing. GTE wholeheartedly agrees with Commissioner Harold W. Furchtgott-Roth

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<sup>6</sup> *Id.*, at 3 (¶ 4).

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

when he states, "I am disappointed by the Commission's preliminary conclusion that the burden imposed on the largest incumbent LECs by the 261 different accounts that they are required to maintain under our rules is outweighed by the benefits of collecting this information."<sup>9</sup> Moreover, as explained, *infra*, the Commission's tentative conclusion that larger carriers should be required to keep Class A accounts is outdated, based on flawed information and cannot be justified.

**1. Under price cap regulation, the old Part 32 accounts designed to capture rate of return era data are no longer needed.**

In the *NPRM*, the Commission fails to account for the fact that the move to price cap regulation substantially diminished the need for detailed cost accounting information. At the time the existing Part 32 rules were written, LECs were regulated based on the costs of providing service, not on the prices they charge for this service. As a result, the accounting rules were aimed at extracting as much detail as possible regarding the LEC's operation.

Today, there no longer is a link between carriers' costs and prices for price cap carriers. Thus, logically, there is less need for carriers subject to price cap regulation to maintain detailed cost accounting compared with carriers still regulated on a rate-of-return basis. Nonetheless, Part 32 was never amended to reflect the move towards price cap regulation and the *NPRM* does nothing to address the issue. Indeed, a result of the Commission's proposals in the *NPRM* would be that the companies required to

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<sup>9</sup> *Id.*, at 16, Separate Statement of Commissioner Harold W. Furchtgott-Roth.

maintain Class A level accounts are all price cap companies, yet ILECs subject to rate-of-return regulation would be allowed Class B accounting.

**2. Contrary to the Commission's opinion, the accounting system currently in place hinders rather than benefits management reporting.**

The FCC's assumptions regarding companies' reliance on Part 32 as a management tool are also outdated. In the *NPRM*, the FCC assumes that its accounting system enables "management and policymakers to assess the results of operational and financial events." <sup>10</sup>

Whether the Part 32 accounting requirements ever benefited management reporting in the past, clearly today these requirements serve little use other than as the basis for reports to regulatory bodies. In today's environment, management no longer utilizes Part 32 results to manage the business. Instead, other management information systems, focused on activity-based costing for instance, have been implemented. These "ad hoc" information systems, necessitated by the inflexibility of the USOA, represent a substantial cost to carriers today.

As an illustration, GTE recently implemented a new packaged general ledger system that required extensive customization to comply with Part 32 reporting requirements. Approximately 20%-25% of the total general ledger system implementation costs were solely attributable to customizing the system specifically to meet Part 32 requirements, representing a substantial cost to the company. Most "off the shelf" accounting systems are equipped to capture accounting and financial

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<sup>10</sup> *Id.*, at 2-3 (¶ 3).

information in accordance with GAAP. The additional requirements prescribed under Part 32 required GTE to invest more funds to comply with regulatory requirements and most certainly restricted the overall functionality of the accounting system.

Further, most of the large LECs have discontinued the application of Financial Accounting Standards Board ("FASB") Statement 71, *Accounting for the Effects of Certain Types of Regulation*, in response to the new competitive environment and the shift away from cost-based regulation. The rules established within Part 32 were designed to report financial activities in an environment much different than today's and have not been modified to meet today's accounting requirements.

**3. The ratio of GTE's non-regulated to regulated activity is similar that of mid-sized companies and cannot be a basis for denying GTE simplified accounting.**

The NPRM tentatively concludes that the accounting requirements for mid-sized carriers can be relaxed resulting in reduced administrative burden. This proposal is based on the Commission's belief that, "mid-sized carriers typically conduct a lower volume of transactions involving competitive products and services than the large incumbent LECs, thus providing easier monitoring and oversight because there are fewer opportunities for these mid-sized carriers to subsidize competitive services with the revenues earned from the provision of noncompetitive services."<sup>11</sup>

GTE believes the tentative conclusions reached by the Commission are based on incorrect assumptions and result in a wrong answer. As an initial matter, GTE notes that the Commission's proposals result in an accounting policy that "the more

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<sup>11</sup> *Id.*, at 3 (¶ 5).

competition you face, the more regulation you need.” This policy not only completely defies logic and accepted economic principle, but also directly contradicts Congress’ mandate in Section 11 that the FCC consider whether regulation should be *eliminated* as a result of increased competition.

Even accepting the Commission’s flawed logic, GTE notes that the risk posed to ratepayers by a carrier’s action would more properly be expressed in terms of the the percentage of its non-regulated activity to its regulated activity. The actual volume of transactions is meaningless.<sup>12</sup> An examination of GTE’s Automated Reporting and Management Information System (ARMIS) reporting (i.e., Report 43-03) reflects a relatively low percentage of transactions for competitive non-regulated services when compared to the total activity. For the reporting period December 31, 1997, GTE compared total expenses to competitive (non-regulated) expenses (line 750). The results -- non-regulated activity accounts for 10% of total expenses.

A similar comparison of several mid-sized companies reveals that GTE’s non-regulated activity is similar in percentage terms to that of the mid-sized companies.<sup>13</sup> While these precentages may or may not be representative of all mid-sized companies, the higher non-regulated percentages for the companies GTE compared completely undermine the one of the Commission’s primary reasons for excluding GTE from the

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<sup>12</sup> Indeed, the Commission focus on volume is yet another policy decision designed to justify its desire to maintain regulatory restrictions for larger, high-volume, companies.

<sup>13</sup> The non-regulated expense percentage GTE calculated for Central was 11.8%, for United was 14.9%, and for Lincoln Tel was 12.6%.

benefits of simplified accounting. Thus, if the basis for granting regulatory relief in the form of Class B requirements is the percentage of non-regulated business to total business, GTE too warrants such relief.

**4. Class A accounting is not necessary to uphold statutory obligations.**

Another basis for the Commission's proposal to maintain Class A accounting for GTE and the BOCs is its belief that Class A accounting is necessary to ensure that the largest incumbent LECs are in compliance with certain provisions of the Act.<sup>14</sup> GTE firmly believes that each statutory requirement the Commission claims to need Class A accounting to enforce can be enforced just as easily with Class B accounting.

As an initial matter, GTE notes that the perceived need to require greater detail to enforce the listed sections cannot be a basis for distinguishing GTE from other ILECs. Of the eight sections cited by the Commission, six apply only to the BOCs and not to GTE. The others, Sections 254(k) and 260, apply to all telecommunications carriers and all incumbent LECs respectively. Thus, in the case of Sections 254(k) and 260, it follows that if more detailed accounting is needed to enforce these sections, the Commission must either forbear from enforcing these provisions against mid-sized ILECs or require such ILECs to use Class A accounting – neither of which the Commission proposes in the *NPRM*.

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<sup>14</sup> *NPRM*, at 3-6 (¶ 6). The Commission claims that Class A accounting detail is necessary for it to uphold its obligation to enforce Sections 254(k), 260, and 271-276 of the Act (citations omitted).

In addition, GTE notes that each of the eight sections listed by the Commission are aimed at preventing cross-subsidization for certain specified activities. Issues of cross-subsidy are clearly less relevant under price cap regulation. Moreover, other safeguards exist that further mitigate the Commission's concerns.

For example, Section 260 of the Act states that ILECs may not subsidize telemessaging (aka voice messaging) services with their telephone exchange or exchange access services.<sup>15</sup> Voice messaging services are deemed a non-regulated activity and accounted for as such by GTE. Specific non-regulated accounting procedures are applied to this activity to ensure all costs are appropriately classified and to ensure that no cross-subsidies exist. The non-regulated costs are recorded to specific non-regulated subsidiary accounts and all costs incurred through regulated activities are reimbursed to the regulated company at tariffed rates. Costs that support the non-regulated service as well as other non-regulated and regulated services, referred to as joint or common costs, are reported to common accounts. The CAM process then allocates those costs to the appropriate regulated and non-regulated accounts. This approach essentially replicates "structural separation" and is designed to ensure that cross-subsidies do not occur. Significantly, this accounting approach does not rely on Class A level accounting.

Similarly, Sections 272, 273, and 274 provide guidance on controlling affiliate accounting activities which is not specific to Part 32 Class A requirements. Class B

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<sup>15</sup> 47 U.S.C. § 260.

accounts can be used to satisfy reporting requirements for the jurisdictional reporting process.

Finally, the FCC attempts to illustrate the usefulness of Class A accounting by arguing that Account 7370, an account maintained at the Class A level, was used to identify \$118 million in lobbying costs improperly included in BOC revenue requirements between 1989 and 1991.<sup>16</sup> The FCC's premise, however, that Class A accounting is useful in identifying the lobbying expense of the carriers, is not accurate. The FCC's definition of Account 7370 (Special Charges) includes not only lobbying expense, but the following costs: contributions for charitable, social or community welfare purposes; membership fees and dues; penalties and fines paid on violations of statutes; and abandoned construction projects.<sup>17</sup> Thus, for the Commission to have determined that the BOCs mistreated lobbying expenses, it had to have examined the transactional detail itself. Auditors do not rely solely on account titles in verifying the accuracy of a company's records -- standard auditing procedures require a review of the transaction detail. Therefore, any inference that the more detailed Class A accounting somehow simplifies traditional auditing procedures is misguided. Although the Class B level of detail would require an aggregation of several additional accounts, the auditing and monitoring requirements would be exactly the same for both Class A and Class B accounting.

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<sup>16</sup> *NPRM*, at 5 (n. 19).

<sup>17</sup> 47 CFR § 32.7370.

**5. The Class B account structure has no effect on jurisdictional separations.**

The FCC seeks comment on the possible effects on jurisdictional separations that could result from its proposal to extend Class B accounting to mid-sized ILECs. In particular, the FCC notes that its Part 36 separations manual requires Class A and Class B carriers to allocate their costs between jurisdictions in a different manner.<sup>18</sup>

The FCC need not be concerned with any impact on the jurisdictional separations process being caused by shifting carriers from Class A to Class B accounting. More importantly, the effect on jurisdictional separations should not be used as a basis for denying the use of Class B accounts to any other carriers, including GTE.

The only separations difference between Class A and Class B companies is the method for allocating General Support Facilities ("GSF") investment in Part 36. Class A companies allocate GSF between state and interstate based on Big 3 Expenses while Class B accounting companies allocate GSF on Combined Central Office Equipment, Information Originating/Terminating and Cable & Wire Facilities investment.

In a White Paper recently submitted to the Commission, Arthur Andersen LLP concurred with GTE's analysis of the separations issue, stating that "(i)f a Class B account structure were adopted for all LECs, subsequent regulatory processes including Part 64 common cost allocations, Part 36 jurisdictional separations and rate

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<sup>18</sup> *NPRM*, at 3 (¶ 5 and n. 9).

development under the Part 69 access charge rules would be largely unaffected.”<sup>19</sup>

The Arthur Andersen Paper stated that the Part 36 and Part 69 rules are already based on a Class B level of account detail, so no changes to such rules would be required.

The Part 64 cost allocation process, while based on a Class A level of account detail today, could be converted to a Class B level without a significant impact on the regulated/non-regulated cost allocation results.<sup>20</sup>

As such, GTE contends the move to Class B has no substantial effect on the jurisdictional separations process for Class A companies. The total interstate shift in revenue requirement associated with using Class B separations rules is approximately \$13 million on a \$2.4 trillion base – or .005%.

**B. THE PROPOSED CHANGES TO CAM REQUIREMENTS DO NOT GO FAR ENOUGH.**

The NPRM proposes to eliminate or modify some of the information required in the CAMs filed by mid-sized ILECs. The Commission concludes, correctly, that a number of the administrative burdens that the CAM requirements place on carriers can and should be reduced. In particular, the Commission proposes to allow mid-sized carriers to submit their CAMs based on Class B accounts and to require such carriers to perform an independent audit of reported cost allocation data every two years instead

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<sup>19</sup> “Accounting Simplification in the Telecommunications Industry”, submitted as an *ex parte* presentation in CC Docket No. 98-81 on July 15, 1998 (“Arthur Andersen Paper”).

<sup>20</sup> *Id.*, at 24.

of annually.<sup>21</sup> The Commission, however, proposes to limit this relief to mid-sized companies only. The Commission reasons that because the largest ILECs tend to conduct a greater transactional volume of competitive services, there is a greater risk of harm from cross-subsidization.<sup>22</sup>

Like its tentative decision to exclude GTE from the benefits of Class B accounting, the Commission's reasons for withholding the benefits of streamlined CAM requirements are seriously flawed. First, GTE notes, as discussed above, that under price cap regulation there exist numerous safeguards designed to protect ratepayers from the very same threat of cross-subsidization that the CAM is designed to eliminate.

In addition, as discussed above, the Commission's "lower transactional volume" argument is inappropriate because it is based on volumes rather than percentages.<sup>23</sup> If larger companies have the same percentage of non-regulatory transactions as the class of companies targeted for relief, they pose no greater threat to their ratepayers than smaller companies do. While it is obvious that larger companies have more transactions, they also have more customers and larger regulated bases. As shown above, GTE's percentage of non-regulated to regulated activity compared to mid-sized companies, is not significantly different. Accordingly, the potential impact on GTE's

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<sup>21</sup> *NPRM*, at 7-9.

<sup>22</sup> *Id.*, at 9 (¶ 12).

<sup>23</sup> See, Discussion Section II.A.3, *supra*.

ratepayers is no greater than the ratepayers of mid-sized companies. Thus, the Commission's denial of relief is without basis.

Like the mid-sized ILECs, GTE would benefit from both being able to use Class B accounts as the basis for its CAM, and relaxing GTE's CAM audit requirements. The Commission is correct when it finds that relaxing the audit requirements should significantly reduce the cost of the audit. Currently GTE spends approximately one million dollars annually to meet this regulatory requirement – a cost of regulation that GTE's competitors do not face. Unless it can be demonstrated that GTE's ratepayers are at greater risk than the ratepayers of mid-sized companies (which they are not), adopting a two-year audit interval is just as appropriate for GTE as well as the mid-sized companies.

GTE believes there are numerous other ways in which the FCC should consider easing the CAM requirements as part of the biennial review. In particular, GTE recommends that the Commission permit companies to move to a formulaic approach to common cost allocations when it can be shown that costly annual studies repeated produce the same results over time.<sup>24</sup> In cases where there is virtually no change from year to year, GTE recommends that the carrier be allowed to use a fixed factor based on the stable results of prior years.

The quantification of CAM changes is another area where cost savings be realized with minor modification. GTE proposes that CAM changes only require the

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<sup>24</sup> An additional benefit that results from this approach, is the ability of the Commission to compare the allocations from information that may be readily available in ARMIS reports.

current quantification process when it is apparent that the change will result in an impact above one million dollars. Changes below that amount would be subject to management's best estimate, but costly studies of immaterial changes would be avoided.

Given that GTE's non-regulated investment and expenses subject to the CAM process is relatively small, relief from the current costly CAM requirements is long overdue. With the backdrop of price cap protection, a Class B CAM, biennial audits and the changes recommended above are warranted in the Section 11 review process. GTE urges the Commission to extend this needed regulatory relief to GTE and rest of the companies currently required to file CAMs.

**C. THE MOVEMENT TO CLASS B ACCOUNTS FOR ALL CARRIERS SHOULD BE JUST THE FIRST STEP IN A PROCESS THAT WILL SIGNIFICANTLY STREAMLINE PART 32.**

In the *NPRM*, the Commission proposes to reduce or eliminate a number of Part 32 accounts or filing requirements. While GTE generally supports the Commission's efforts to eliminate Part 32 requirements, GTE does not believe the Commission has gone far enough. GTE believes that in keeping with Congress' mandate in Section 11 of the Act, the FCC must undertake a more extensive review of its Part 32 rules and propose more extensive streamlining of those rules.

**1. The Accounting changes proposed by the Commission do not go far enough.**

**a) Consolidation of accounts**

In the *NPRM*, the Commission proposes to consolidate accounts 2114, 2115, and 2116 and the related plant specific expense accounts 6114, 6115, and 6116.<sup>25</sup> While these changes fall well short of the level of simplification expected, GTE agrees with the Commission's conclusions to consolidate these accounts. The accounting and reporting burdens will be reduced as a result of this consolidation.

**b) Elimination of Account 5010**

In the *NPRM*, the Commission proposes to eliminate account 5010, Public telephone revenue. The United States Telephone Association, ("USTA") had previously petitioned the FCC arguing that this account was no longer necessary as a result of the deregulation of payphone services.<sup>26</sup> GTE agrees with the Commission's tentative conclusion.

**c) Revision to Section 32.16**

Section 32.16 of the Commission's rules requires carriers to revise their records and accounts to reflect new FASB standards. As part of this requirement, carriers are required to notify the Commission of their intention to follow a new standard and provide the FCC with a revenue requirement study analyzing the effects of the accounting change for the current and future years.<sup>27</sup> In the *NPRM*, the Commission

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<sup>25</sup> *NPRM*, at 9-10 (¶¶ 14-15).

<sup>26</sup> *Id.*, at 10-11 (¶ 16).

<sup>27</sup> 47 C.F.R. § 32.16.

proposes that carriers only provide current year revenue requirements studies, thus eliminating the future year projected revenue requirement studies.<sup>28</sup> While GTE supports this change, GTE urges the Commission to go farther and entirely eliminate the need to notify the Commission of an intention to adopt a new FASB standard.

The FASB Rules of Procedure require the FASB to follow an extensive "due process" that is open to public observation and participation. This process was modeled on the federal Administrative Procedure Act and in several respects is more demanding. The FASB, therefore, is very rigorous in its efforts to ensure "due process" is afforded each change and persons impacted are allowed to debate and comment on the respective issue. Given this extensive procedure, GTE does not believe additional FCC review is necessary.

**d) Revision to Section 32.2000(b)**

In the NPRM, the Commission proposes to eliminate the requirement that carriers submit for FCC approval the journal entries made to ensure carriers comply with section 32.2000(b). GTE supports this action.

**2. The NPRM fails to consider many other viable means of streamlining accounting requirements and simplifying recordkeeping.**

**a) Strict GAAP accounting**

Part 32, by its terms "embodies the accounting theories and principles commonly referred to as generally accepted accounting principles [GAAP]."<sup>29</sup> However, there are

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<sup>28</sup> *NPRM*, at 11 (¶ 17).

<sup>29</sup> 47 C.F.R. § 32.1.

many instances in which the FCC's rules impose greater restrictions than are necessary under GAAP accounting. GTE believes that emerging issues such as price cap regulation and competition require the FCC's rules to provide greater flexibility in managing the company. In this proceeding, therefore, in addition to allowing GTE to adopt a Class B system of accounts, GTE believes the Commission should consider adopting strict GAAP accounting measures.<sup>30</sup> Moving to a simplified system of accounts would significantly streamline the account structure, satisfy reporting requirements, and still allow for appropriate regulatory monitoring. Removing the requirement to keep more detailed accounts for all companies provides greater reporting flexibility and allows all companies to move to a less burdensome method of maintaining accounting information. Companies must be allowed to maintain financial information that provides the most value from a managerial perspective and still provide for appropriate accounting controls.

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<sup>30</sup> GTE notes that its recommendations in this regard are consistent with the Arthur Andersen Paper. There, Arthur Andersen stated:

Ultimately, LECs should be allowed to move completely to a GAAP basis in determining the appropriate account structure and accounting requirements to be followed. This change would eliminate the numerous "sets of books" (and related resource and systems costs) that are currently required for interstate regulatory accounting, state regulatory accounting and external reporting. Arthur Andersen Paper at 22.

## **b) Vintage Amortization Level**

GTE believes that as part of the this proceeding, in addition to consolidating the 2114, 2115 and 2116 accounts, the Commission could adopt Vintage Amortization Level ("VAL") accounting for all support accounts.<sup>31</sup>

The United States Telephone Association ("USTA") first proposed VAL in a Petition for Rulemaking<sup>32</sup> filed on May 31, 1994. The majority of respondents, including several state commissions, supported this petition. VAL greatly improves the efficiency of the current CPR systems by removing the need to identify, track and inventory a large volume of retirement units representing a disproportionately small amount of a carrier's plant investment.<sup>33</sup> VAL also assures that support assets and their associated reserves are removed from a carrier's books at the end of the asset's useful life. Most importantly, VAL eliminates costly and time-consuming depreciation studies for those

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<sup>31</sup> Under the VAL system, the net book value of existing assets in each account would be placed in a VAL group and amortized on a straight-line basis over the remaining life that results from the asset life chosen from the FCC-approved range of lives. All new purchases would also be placed in a VAL group for each vintage for each account and amortized in the same manner. When assets in a particular VAL group are fully amortized, the assets and their associated reserves would be removed from the company's books. Salvage proceeds would be reflected as a decrease in amortization expense, and the cost of removal would be shown as an increase in amortization expense.

<sup>32</sup> Petition for Rulemaking of the United States Telephone Association (RM-8640).

<sup>33</sup> Approximately 12% of GTE's Asset Management headcount is dedicated to the tracking and control of small dollar support assets, representing in the aggregate approximately 4% of GTE's total asset base. This disparity would be alleviated with the implementation of VAL accounting. In addition to the direct savings that could be achieved in the Asset Management area, other savings would be achieved downstream, due to less detailed depreciation studies and procedures and from no longer having to process detailed asset retirements for these low-dollar items.